

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with Unity Wind, LLC**

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Hereford ISD Financial Impact of Chapter 313 Agreement

Summary of Hereford ISD Financial Impact of the Limited Appraised Value Application from Unity Wind, LLC

Introduction

Unity Wind, LLC applied for a property value limitation from Hereford Independent School District under Chapter 313 of the Tax Code. The application was submitted on November 12, 2013 and subsequently approved for consideration by the Hereford ISD Board of Trustees. Unity Wind, LLC (“Unity Wind”), is requesting the property value limitation as a “renewable energy electric generation” project as listed in Sec. 313.024.(b) of the Tax Code.

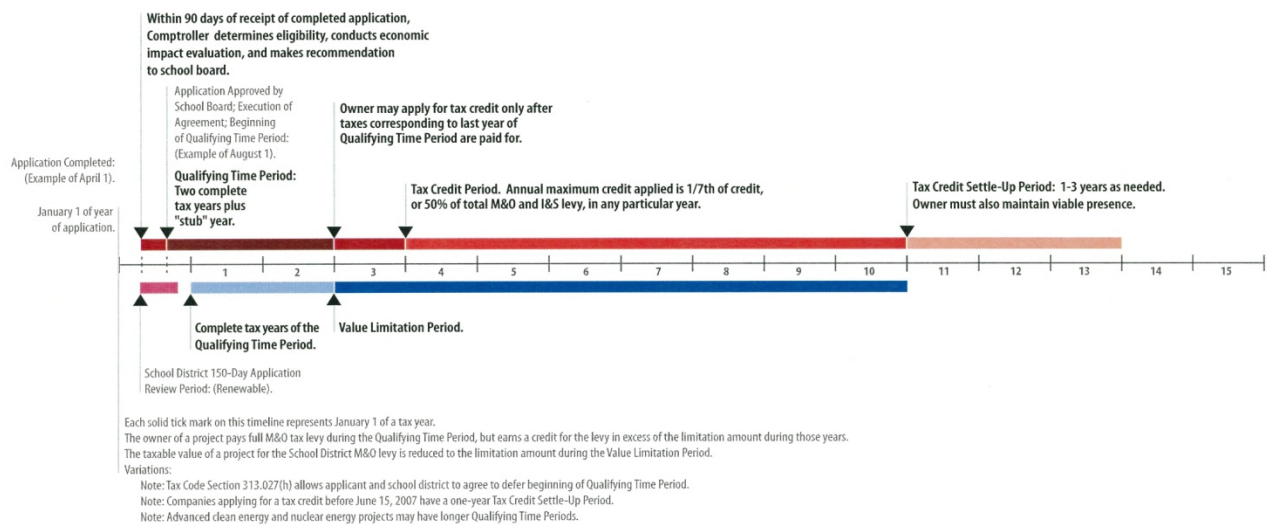
“The Economic Development Act “, Tax Code Chapter 313, was created by House Bill 1200 of the 77th Texas Legislature in 2001. Further amendments were made to Chapter 313 as a result of House Bill 1470 from the 80th Texas Legislative Session in 2007.

The Economic Development Act was created to attract qualifying businesses to Texas by allowing school districts the option of approving a property value limitation to these qualifying entities. The purpose of the property value limitation is to reduce the maintenance and operations taxes paid by the company, to a school district during the applicable years as displayed below.

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Appraised Value Limitation and Credit under Tax Code

Chapter 313 for School District Maintenance & Operations (M&O) Tax



The company must file an application with the school district to qualify for consideration of a Limited Appraised Value Agreement ("LAVA" or "Agreement") to begin the following tax year or a later year if agreed upon by the District and the Company. The first two years of the agreement are considered the qualifying time period and the company's school district taxes will be levied at one-hundred percent of the appraised value. The applicant may then file a separate application with the school district to request tax credits (for taxes paid during the qualifying time period) to be applied during years four through ten of the LAVA, but not to exceed 50% of their tax levy for those years. Any tax credit balance remaining after this period can then be applied during years eleven through thirteen of the agreement, but cannot exceed the actual amount of taxes paid to the school district during the Settle-Up Period. After year thirteen, any leftover credits will not be applied and will expire.

During years three through ten of the LAVA, the qualifying entity's taxable value will be reduced to the minimum qualified investment for the applicable school district as determined by the State Comptroller's Office. Hereford ISD is considered a Rural category 1 District as categorized with total taxable value of industrial property of \$200 million or more, thus Hereford ISD has a

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minimum qualified investment amount of \$30 million. A qualifying entity's taxable value would be reduced to \$30 million during years three through ten of the agreement for the purposes of computing the tax levy for the maintenance and operations (M&O) tax of Hereford ISD. The entire appraised value will be used for computing the interest and sinking (I&S) tax levy.

Taxable Value Impact from LAVA

The "Additional Value from Unity Wind" represents the values that the company estimated as their taxable values in the application that was filed with the district. During years three through ten, the company's taxable value will be limited to the \$30,000,000 minimum qualified investment of Hereford ISD.

TABLE I- Calculation of Taxable Value:

| Tax Year | Additional Value From Unity Wind | Minimum Qualified Investment | Abated Value | Taxable Value |
|---------------------|---|---|-------------------------|--------------------------|
| Jan. 1, 2015 | 0 | n/a | 0 | 0 |
| Jan. 1, 2016 | 414,850,000 | n/a | 0 | 414,850,000 |
| Jan. 1, 2017 | 394,107,500 | (30,000,000) | 364,107,500 | 30,000,000 |
| Jan. 1, 2018 | 374,402,125 | (30,000,000) | 344,402,125 | 30,000,000 |
| Jan. 1, 2019 | 355,682,019 | (30,000,000) | 325,682,019 | 30,000,000 |
| Jan. 1, 2020 | 337,897,918 | (30,000,000) | 307,897,918 | 30,000,000 |
| Jan. 1, 2021 | 321,003,022 | (30,000,000) | 291,003,022 | 30,000,000 |
| Jan. 1, 2022 | 304,952,871 | (30,000,000) | 274,952,871 | 30,000,000 |
| Jan. 1, 2023 | 289,705,227 | (30,000,000) | 259,705,227 | 30,000,000 |
| Jan. 1, 2024 | 275,219,966 | (30,000,000) | 245,219,966 | 30,000,000 |
| Jan. 1, 2025 | 261,458,968 | n/a | 0 | 261,458,968 |
| Jan. 1, 2026 | 248,386,019 | n/a | 0 | 248,386,019 |
| Jan. 1, 2027 | 235,966,718 | n/a | 0 | 235,966,718 |

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Unity Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Unity Wind is \$25.25 million over the life of the Agreement. This net savings is after all tax credits have been applied and after estimated payments have been made to the district to offset their revenue losses that were a direct result of entering into this Agreement. Tax credits during years four through ten are limited to the lesser of 1/7 of the total tax credit or 50% of the total taxes paid for that tax year. Any tax credits not refunded to the company during those years will be refunded up to 100% of the taxes paid in years eleven through thirteen.

Hereford ISD's projected tax rates for maintenance & operations (M&O) and interest & sinking (I&S) are based on the following assumptions:

- The District has not held a tax ratification election that would approve a M&O tax rate in excess of \$1.04; therefore, the study assumes that they will maintain a M&O tax rate of \$1.04. This does not suggest that Hereford ISD will not exercise its authority to hold an agreement during this agreement period.
- The District currently has no outstanding bond obligations and therefore has no I&S tax rate. The study assumes that they will have no bonded indebtedness during the agreement period; however, the district could call for a bond referendum and install an I&S tax during this agreement period.

TABLE II- Computation of Net Tax Savings:

| Fiscal Year | Projected M&O Tax Rate | Projected I&S Tax Rate | Taxes w/o Agreement | Tax Savings with Agreement | Tax Credits | Payment of District's Revenue Losses | Net Tax Savings |
|---------------|------------------------|------------------------|---------------------|----------------------------|------------------|--------------------------------------|-------------------|
| 2015-2016 | 1.04 | 0.00 | 0 | 0 | n/a | 0 | 0 |
| 2016-2017 | 1.04 | 0.00 | 4,314,440 | 0 | n/a | 0 | 0 |
| 2017-2018 | 1.04 | 0.00 | 4,098,718 | 3,786,718 | n/a | (3,845,406) | (58,688) |
| 2018-2019 | 1.04 | 0.00 | 3,893,782 | 3,581,782 | 156,000 | 0 | 3,737,782 |
| 2019-2020 | 1.04 | 0.00 | 3,699,093 | 3,387,093 | 156,000 | 0 | 3,543,093 |
| 2020-2021 | 1.04 | 0.00 | 3,514,138 | 3,202,138 | 156,000 | 0 | 3,358,138 |
| 2021-2022 | 1.04 | 0.00 | 3,338,431 | 3,026,431 | 156,000 | 0 | 3,182,431 |
| 2022-2023 | 1.04 | 0.00 | 3,171,510 | 2,859,510 | 156,000 | 0 | 3,015,510 |
| 2023-2024 | 1.04 | 0.00 | 3,012,934 | 2,700,934 | 156,000 | 0 | 2,856,934 |
| 2024-2025 | 1.04 | 0.00 | 2,862,288 | 2,550,288 | 156,000 | 0 | 2,706,288 |
| 2025-2026 | 1.04 | 0.00 | 2,719,173 | 0 | 2,719,173 | 0 | 2,719,173 |
| 2026-2027 | 1.04 | 0.00 | 2,583,215 | 0 | 191,267 | 0 | 191,267 |
| 2027-2028 | 1.04 | 0.00 | 2,454,054 | 0 | 0 | 0 | 0 |
| Totals | | | 39,661,776 | 25,094,895 | 4,002,440 | (3,845,406) | 25,251,929 |

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Financial Impact Study

This Financial Impact Study was performed to determine the financial impact of the Limited Appraised Value Agreement on Hereford ISD. First, a thirteen year financial forecast was prepared to establish a baseline without the added values of the renewable energy electric generation company. Second, a thirteen year financial forecast was prepared that incorporated the additional taxable value of the company without a LAVA in effect. Third, a thirteen year financial forecast was prepared that incorporates the additional taxable value of the company with an approved LAVA. These three forecasts are detailed in the “Calculation of LAVA Impact on District’s Finances” section. The following assumptions were used to compare the financial impact of the LAVA:

- The current state funding formulas (in effect for 2013-2014 fiscal year) were used for state aid and recapture calculation purposes
 - Level 2 of Tier II yield - \$61.86 per weighted student in average daily attendance (WADA) per penny of tax effort
- The district’s tax rate for maintenance & operations (M&O) will remain at the same rate as for tax year 2013.
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- An annual taxable value increase of 1% was used to project the district’s taxable value, except as it related to the requested LAVA. The district’s 2013 taxable value was used as a baseline for all projections
- The district’s enrollment is projected to decrease slightly; therefore, the projected ADA and WADA for school year 2013-2014 was decreased by .1% per year for the life of the agreement.

Although these assumptions were used to develop a baseline scenario for comparison purposes, many of these factors will not remain constant for the thirteen years of this proposed agreement. Also, Legislative changes to the school finance formulas are likely during the near future and almost certain during the life of this agreement.

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Calculation of LAVA Impact on District's Finances

The tables displayed below (Table III, IV, V) show the different impacts on the school district's finances. These scenarios were computed to compare the District's revenue without the additional taxable value of Unity Wind (Table III), the addition of Unity Wind's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Unity Wind's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* Unity Wind:

| Fiscal Year | M&O Taxes | | | | Revenue | | |
|-------------|---------------|------------|------------|-----------|------------|-----------|----------------|
| | Total Taxable | Compressed | State | Recapture | Tier I | Above | Total District |
| | Value | Rate | Revenue | Amount | Revenue | Comp Rate | Revenue |
| 2015-2016 | 1,109,297,417 | 11,092,974 | 16,237,629 | 0 | 27,330,603 | 1,338,018 | 28,668,621 |
| 2016-2017 | 1,120,390,392 | 11,203,904 | 16,102,779 | 0 | 27,306,683 | 1,336,680 | 28,643,363 |
| 2017-2018 | 1,131,594,296 | 11,315,943 | 15,948,660 | 0 | 27,264,603 | 1,335,344 | 28,599,946 |
| 2018-2019 | 1,142,910,239 | 11,429,102 | 15,798,293 | 0 | 27,227,395 | 1,334,008 | 28,561,403 |
| 2019-2020 | 1,154,339,341 | 11,543,393 | 15,646,669 | 0 | 27,190,062 | 1,332,674 | 28,522,737 |
| 2020-2021 | 1,165,882,734 | 11,658,827 | 15,488,579 | 0 | 27,147,406 | 1,331,342 | 28,478,748 |
| 2021-2022 | 1,177,541,562 | 11,775,416 | 15,321,358 | 0 | 27,096,774 | 1,330,010 | 28,426,784 |
| 2022-2023 | 1,189,316,977 | 11,893,170 | 15,178,945 | 0 | 27,072,115 | 1,328,680 | 28,400,795 |
| 2023-2024 | 1,201,210,147 | 12,012,101 | 15,016,980 | 0 | 27,029,081 | 1,327,351 | 28,356,433 |
| 2024-2025 | 1,213,222,249 | 12,132,222 | 14,858,895 | 0 | 26,991,117 | 1,326,024 | 28,317,142 |
| 2025-2026 | 1,225,354,471 | 12,253,545 | 14,699,704 | 0 | 26,953,249 | 1,324,698 | 28,277,947 |
| 2026-2027 | 1,237,608,016 | 12,376,080 | 14,533,747 | 0 | 26,909,827 | 1,323,373 | 28,233,201 |
| 2027-2028 | 1,249,984,096 | 12,499,841 | 14,370,818 | 0 | 26,870,659 | 1,322,050 | 28,192,709 |

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TABLE IV- District Revenues *with* Unity Wind *without* Chapter 313 Agreement:

| Fiscal Year | M&O Taxes | | | | | Revenue | |
|-------------|---------------|------------|------------|-----------|------------|-----------|----------------|
| | Total Taxable | Compressed | State | Recapture | Tier I | Above | Total District |
| | Value | Rate | Revenue | Amount | Revenue | Comp Rate | Revenue |
| 2015-2016 | 1,109,297,417 | 11,092,974 | 16,237,629 | 0 | 27,330,603 | 1,338,018 | 28,668,621 |
| 2016-2017 | 1,535,240,392 | 15,352,404 | 15,964,770 | 0 | 31,317,174 | 1,831,616 | 33,148,790 |
| 2017-2018 | 1,525,701,796 | 15,257,018 | 11,496,100 | 0 | 26,753,118 | 1,313,908 | 28,067,026 |
| 2018-2019 | 1,517,312,364 | 15,173,124 | 11,568,025 | 0 | 26,741,149 | 1,313,537 | 28,054,686 |
| 2019-2020 | 1,510,021,360 | 15,100,214 | 11,628,127 | 0 | 26,728,340 | 1,313,139 | 28,041,479 |
| 2020-2021 | 1,503,780,652 | 15,037,807 | 11,671,731 | 0 | 26,709,537 | 1,312,712 | 28,022,249 |
| 2021-2022 | 1,498,544,584 | 14,985,446 | 11,710,234 | 0 | 26,695,680 | 1,312,257 | 28,007,937 |
| 2022-2023 | 1,494,269,848 | 14,942,698 | 11,737,392 | 0 | 26,680,090 | 1,311,772 | 27,991,862 |
| 2023-2024 | 1,490,915,374 | 14,909,154 | 11,749,968 | 0 | 26,659,122 | 1,311,259 | 27,970,381 |
| 2024-2025 | 1,488,442,215 | 14,884,422 | 11,758,275 | 0 | 26,642,697 | 1,310,717 | 27,953,415 |
| 2025-2026 | 1,486,813,439 | 14,868,134 | 11,757,517 | 0 | 26,625,652 | 1,310,147 | 27,935,799 |
| 2026-2027 | 1,485,994,035 | 14,859,940 | 11,742,876 | 0 | 26,602,816 | 1,309,549 | 27,912,365 |
| 2027-2028 | 1,485,950,814 | 14,859,508 | 11,728,671 | 0 | 26,588,179 | 1,308,922 | 27,897,101 |

TABLE V – District Revenues *with* Unity Wind *with* Chapter 313 Agreement:

| Fiscal Year | Total Taxable | M&O Taxes | State | Recapture | Tier I | Revenue | Payment | Total District |
|-------------|---------------|------------|------------|-----------|------------|-----------|--------------|----------------|
| | Value | Comp Rate | Revenue | Amount | Revenue | Above | for District | Revenue |
| | | | | | | Comp Rate | Losses | |
| 2015-2016 | 1,109,297,417 | 11,092,974 | 16,237,629 | 0 | 27,330,603 | 1,338,018 | 0 | 28,668,621 |
| 2016-2017 | 1,535,240,392 | 15,352,404 | 15,964,770 | 0 | 31,317,174 | 1,831,616 | 0 | 33,148,790 |
| 2017-2018 | 1,161,594,296 | 11,615,943 | 11,605,332 | 0 | 23,221,275 | 1,000,345 | 3,845,406 | 28,067,026 |
| 2018-2019 | 1,172,910,239 | 11,729,102 | 15,312,421 | 0 | 27,041,523 | 1,333,667 | 0 | 28,375,190 |
| 2019-2020 | 1,184,339,341 | 11,843,393 | 15,169,853 | 0 | 27,013,246 | 1,332,337 | 0 | 28,345,583 |
| 2020-2021 | 1,195,882,734 | 11,958,827 | 15,020,920 | 0 | 26,979,747 | 1,331,008 | 0 | 28,310,755 |
| 2021-2022 | 1,207,541,562 | 12,075,416 | 14,876,513 | 0 | 26,951,929 | 1,329,680 | 0 | 28,281,609 |
| 2022-2023 | 1,219,316,977 | 12,193,170 | 14,729,908 | 0 | 26,923,078 | 1,328,353 | 0 | 28,251,431 |
| 2023-2024 | 1,231,210,147 | 12,312,101 | 14,577,409 | 0 | 26,889,510 | 1,327,028 | 0 | 28,216,538 |
| 2024-2025 | 1,243,222,249 | 12,432,222 | 14,428,897 | 0 | 26,861,119 | 1,325,704 | 0 | 28,186,824 |
| 2025-2026 | 1,486,813,439 | 14,868,134 | 14,209,716 | 0 | 29,077,851 | 1,568,568 | 0 | 30,646,418 |
| 2026-2027 | 1,485,994,035 | 14,859,940 | 11,742,876 | 0 | 26,602,816 | 1,309,549 | 0 | 27,912,365 |
| 2027-2028 | 1,485,950,814 | 14,859,508 | 11,728,671 | 0 | 26,588,179 | 1,308,922 | 0 | 27,897,101 |

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Current School Finance Law

A major overhaul of the school finance formulas was implemented as a result of House Bill 1 of the 79th Legislative Session and became effective for the 2006-2007 school year. Those formula changes had an effect on the district's financial impact from granting a property value limitation. Due to the district's "Hold Harmless" provision that was enacted in the funding formulas, some districts had the majority of the district's revenue losses in year three of the LAVA offset with additional state funding. The funding that was available to offset those revenue losses was called Additional State Aid for Tax Reduction (ASATR) and those funds were phased out as a result of legislation in the 82nd Legislative Session in 2011. This legislation eliminated the ASATR funding for fiscal year 2017-2018 and thereafter and can have a significant financial impact for LAVA agreements that have a year three in 2017-2018 or later. The loss of ASATR funding can again cause a district to experience a significant loss of funds in year three of the agreement and consequently cause the company to have revenue protection payments during that year that are similar to those experienced prior to 2006-2007.

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Payments in Lieu of Taxes

Assuming that the District and Unity Wind, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Hereford ISD by Unity Wind, the projected amount of these payments over the life of the agreement is \$5.02 million of the \$25.25 million net tax savings amount. This amount will be computed annually according to Section IV of the Agreement.

TABLE VI - Calculation of the Payment in Lieu of Taxes:

| Fiscal Year | Net Tax Savings | Hereford ISD Share \$100/ADA | Unity Wind Share |
|---------------|-------------------|---------------------------------|---------------------|
| 2015-2016 | 0 | 388,831 | (388,831) |
| 2016-2017 | 0 | 388,442 | (388,442) |
| 2017-2018 | (58,688) | 388,054 | (446,742) |
| 2018-2019 | 3,737,782 | 387,666 | 3,350,116 |
| 2019-2020 | 3,543,093 | 387,278 | 3,155,815 |
| 2020-2021 | 3,358,138 | 386,891 | 2,971,247 |
| 2021-2022 | 3,182,431 | 386,504 | 2,795,927 |
| 2022-2023 | 3,015,510 | 386,118 | 2,629,392 |
| 2023-2024 | 2,856,934 | 385,731 | 2,471,203 |
| 2024-2025 | 2,706,288 | 385,346 | 2,320,942 |
| 2025-2026 | 2,719,173 | 384,960 | 2,334,213 |
| 2026-2027 | 191,267 | 384,575 | (193,308) |
| 2027-2028 | 0 | 384,191 | (384,191) |
| Totals | 25,251,929 | 5,024,587 | 20,227,342 |

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Impact of Projected Student Growth On District Facilities

TABLE VII – Campus Capacity and Available Growth

| Campus | Grade Level | # of Regular Classrooms | Building Capacity | Current Enrollment | Enrollment Growth Available |
|-----------------------|-------------|-------------------------|-------------------|--------------------|-----------------------------|
| Aikman Elem | K-5 | 23 | 506 | 441 | 65 |
| Bluebonnet Elem | K-5 | 18 | 396 | 337 | 59 |
| Northwest Elem | K-5 | 24 | 528 | 478 | 50 |
| Tierra Blanca El. | K-5 | 19 | 418 | 358 | 60 |
| West Central El. | K-5 | 15 | 330 | 257 | 73 |
| Stanton Learning | PK-EE | 16 | 352 | 320 | 32 |
| Hereford Jr High | 6-7 | 35 | 700 | 604 | 96 |
| Hereford Prep Academy | 8 | 24 | 480 | 309 | 171 |
| Hereford High | 9-12 | 77 | 1540 | 1118 | 422 |
| Total | | 251 | 5,250 | 4,222 | 1,028 |

The building capacities are based on 22 students per classroom for the elementary campuses, 20 students for the Jr. High and high school. Hereford ISD is a pre-kindergarten through 12th grade district.

Unity, LLC provided supplemental information with their application that projected the number of full-time employees that are expected for permanent employment after construction of the project is completed. They projected that eight full-time employees are expected. It is not known whether these would be new employees to the Hereford ISD, or if current residents would occupy these positions; however, it is assumed that these employees would be new residents to the district.

Based on average statewide figures provided by a demographer, it is projected that each new household would produce .5 students. Thus, the new eight positions equates to 4 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Hereford ISD as displayed in Table VII above.

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Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with Unity Wind, LLC, would be beneficial to both Unity Wind and Hereford ISD under the current school finance system.

Unity Wind, LLC would benefit from reduced property taxes during years three through ten of the LAVA. Although some of the tax savings would be used to offset district's revenue losses and payments in lieu of taxes to the District, Unity Wind is projected to benefit from a 78% tax savings over the first twelve year period of this agreement. Unity Wind also has the option of terminating the Agreement if the amount paid to the District during a tax year is greater than the amount of taxes that would have been paid without the agreement; therefore, there is no inherent risk for the company from entering into the Agreement.

Hereford ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Unity Wind to offset any district losses caused by the LAVA. An annual calculation will be performed each year to determine if a loss to the District has been incurred. The revenue impact to the District will be computed by comparing the District's revenues with and without the LAVA in effect.